Subject: RECONCILIATIONS AND INTERNAL CONTROL

<u>2-40-00</u> GENERAL

A. Reconciliation’s and related verifications insure and demonstrate the validity and integrity of the accounting system. These functions are essential to attainment of a well-regulated system. They must \be regularly and consistently performed to assure the proper discharge of internal control responsibilities.

B. Each agency’s system shall routinely provide for periodic reconciliation’s, verifications, and controls as follows:

1. Trial balances of the general ledger accounts by account or fund and a trial balance summarized without regard to account or fund symbol will be taken monthly.

2. Appropriation cash balances will be reconciled with Treasury cash balances monthly.

3. General ledger accounts will be reconciled at least quarterly with subsidiary asset accounts and supporting records.

4. General ledger accounts will be reconciled monthly with all other subsidiary accounts and records.

5. Batch totals of money amounts and hash totals of significant data elements must be provided for each batch of fiscal documents. Such totals must be a part of the automated input data to provide for computer comparison of the detail with the totals.

6. All necessary data elements must be coded and reviewed by competent personnel prior to input to the financial system to assure the highest degree of accuracy attainable. (It is by far more advantageous to exercise care and accuracy on the input than to devote even more manpower to the task of searching and correcting errors, perhaps after

management decisions have been made – on an erroneous data.)

7. All inputted data, to automated systems, must be verified.

8. Processing controls and error checks shall be programmed into the automated system, to the extent feasible (from the cost/benefit ratio standpoint) to provide the maximum assurance the data is good.

9. The automated processing of the data shall be controlled so that the programmers do not run the programs and so that the machine operators cannot modify the programs.

10. Division of responsibilities among the fiscal staff to provide maximum internal control should be reviewed and strengthened.

C. Reconciliation procedures and techniques should be carefully planned to cover the needs of each subsystem. A systematic review of subsystem characteristics should be conducted to assure that all critical points in the division of duties and responsibilities and in the relationships established between records segments are considered. The use of check lists, schedules, and special forms are recommended t facilitate timely reconciliation’s. Localization of errors and their causes by time periods and responsible areas will be facilitated by a permanent file of reconciliation records.

2-40-10 REPORTS

A. Reconciliation’s assure the accuracy and validity of data accumulated in the accounts for both internal and external reports. Procedures should provide, however, that all reports are verified before being issued. The arithmetic should be checked by cross-footing. Key figures should be checked back to accounts after the report has been compiled. Written instructions and explanations should be prepared to cover the steps necessary to derive reported data which cannot be clearly traced directly to the accounts. Before a report containing such data is issued, the work sheets should be checked to determine whether the data was properly derived. Work sheets should be retained at least until the next report is prepared. If necessary, explanatory comments should be submitted with special reports to assure correct interpretation of the data-particularly if the data is such that it cannot be related back to the accounts.

B. Further detailed material with respect to reports and reconciliation’s required in agency Department, the Bureau of the Budget, and the General Accounting Office is presented in Part 5 of this manual.

2-40-20 GENERAL LEDGER ACCOUNTS

A. Each agency’s subsystem shall provide for the scheduling of coordinated cut-offs and systematic assembly of a trial balance of the general ledger. These requirements are necessary prerequisites to reconciliation of the general ledger accounts. A trial balance will establish that the accounts are in balance and that a degree of accuracy in arithmetic exists in the accounts. It will not, without analysis, reveal whether entries were made to the proper accounts or whether all the current period transactions have been recorded. More detailed procedures should be developed for systematic analysis of the date shown on the trial balance.

B. Each system should provide for (1) regular and routine reconciliation of the detail records to the general ledger (subsidiary) accounts. (2) Thorough investigation of differences, and (3) determination and initiation of corrective action. The requisite check lists, schedules and special forms should be carefully designed and proceduralized as an integral part of the accounting system. These activities should be scheduled and conducted so as to facilitate rather than impede the assembly and issuance of the reports required by management.

C. Whenever specific account relationships exist in a particular system, reconciliations should be applied in accordance with these relationships (formula approach). In cost/accrual applications, the following general formula or an appropriate variant may be applied for appropriated fund accounts:

Cost Applied:	(Various Cost Centers)
Add:	Capitalized Fixed Asset Acquisitions (to the extent funded) Loans Made
Add or Deduct:	The net change in Inventory Accounts (Increase + or Decrease -). Unfunded liability for accrued annual Leave (Increase + or Decrease -).
Deduct:	Unfunded Costs for Depreciation
Equals:	Expended Appropriations and Accrued Expenditures (funded)
Add or Deduct:	Change in Unliquidated (Unpaid/Undelivered)obligations (Increase + or Decrease -).
Equals:	Obligations Incurred
Add:	Unobligated Balances
Equals	Amount of Appropriation

2-40-30 SUBSIDIARY RECORDS

A. The subsidiary records represent the line between the general ledger accounts and the mass of individual transactions. Periodically, the individual documents and asset items should be reviewed, amounts summarized, and be reconciled to the subsidiary accounts. The following subsidiary accounts will be verified at regular intervals:

Receivables	Expense to Controls
Advances	Unliquidated Obligations
Inventories	Allotment Accounts
Fixed Assets	Deposit Accounts
Payables	Statistical Accounts

In situations where the volume of transactions is high, monthly or at least quarterly reconciliation and verifications are required. Otherwise, semiannual or even annual reconciliations may suffice. Fixed assets shall be inventoried and reconciled in accordance with the time periods specified in the Personal Property Manual Chapter 12-40.

B. The records and forms used or maintained in the conduct of these reconciliations should be kept to a minimum. They should provide, however, for the essentials which include:

1. Evidence of actual performance.

2. Identify of time performed and person performing.

3. Evidence that all areas have been covered at the time specified.

4. Clear instructions as to procedures.

These records should be maintained for audit or for special analysis as may be necessary.

C. To spread the workload, the accounts may be reconciled on a cycle basis provided that all such accounts are reconciled at least quarterly.

2-40-40 OBLIGATIONS

A. Reconciliation of the basic obligational documents with subsidiary general ledger accounts is preferably conducted at the end of each month. Quarterly critical review and complete reconciliation of the basic documents to subsidiary ledger records is mandatory. (See Chapter 2-30, Requirements for Obligations). The review must be conducted so as to establish the continuing accuracy and validity of all obligations or record, including obligations of prior years as well as current appropriations. Revisions of the amounts recorded and the cancellation of obligations no longer deemed valid should be promptly reflected in fully documented adjustments to the accounts. The obligation documents must be completely annotated as to the date of successive reviews, information developed, determination made, and action taken. In the case of lapsed appropriations, additional emphasis will be accorded to aged and inactive obligations. Procedures in connection with year-end review and documentation of unpaid obligations are set forth in Section 2-30-40 of this manual.